FIRST CITIZENS
Community Bank

October 22, 2012

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551
sent via email to: regs.comments@federalreserve.gov

Office of the Comptroller of the Currency
250 E Street, SW
Mail Stop 2-3
Washington, D.C. 20219
sent via email to: regs.comments@occ.treas.gov

Robert E. Feldman
Executive Secretary
Attention: Comments/Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Sent via email to: comments@FDIC.gov

RE: Basel III Capital Proposals

To whom it may concern,

I appreciate the opportunity to provide comment on the Basel III proposals that were approved recently by the Federal Reserve Board, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

First Citizens Community Bank (FCCB) is in complete agreement with strengthening capital requirements for our industry to ensure that the industry is better prepared for future downturns in the economy. As of June 30, 2012, our Bank currently has Tier 1 capital in excess of 14.5% and total risk based capital in excess of 16%, and the intention of the Board and Bank management is to always maintain capital at a level that meets our capital planning needs and exceeds "well" capitalized as defined by the various bank regulators.

Saying this, there are a couple of items in the proposals released that have caused us some concerns, which I have listed below:

1. Requirements that gains and losses on available for sale securities must flow through to regulatory capital.

As I am sure you are aware, the current interest rate environment is one of unprecedented low rates. As a result, our Bank as well as the majority of the industry, has significant gains in their available for sale investment portfolios, which currently are excluded from the risk based capital requirements. If they were instead included in these calculations, the rates I noted above would actually increase for our Bank. This issue is if we return to a normal rate environment, it is very likely that our Bank and other Banks will experience significant losses in their investment portfolio as a result of interest rate changes, which are completely independent of changes in valuation associated with credit issues. As part of our interest rate risk monitoring procedures, we perform various interest rate shock scenarios. Utilizing data as of June 30, 2012, if the Bank experienced a 300 basis point shock, the Banks capital would experience over a $20 million dollar decrease, which will have a significant impact on the capital ratios, and therefore our ability to lend funds to customers.

2. Elimination of Trust Preferred Securities

   Our Bank has held about $7.5 million in Trust Preferred Securities for approximately 9 years. While this is not a large portion of our capital, it is a very cost effective source or capital and has helped the Bank to grow and meet additional customer needs. The elimination of these securities from the calculation of capital ratios will reduce our ability to lend additional funds to our customers in the future. Additionally, as I'm sure you're aware, for smaller institutions like mine, Dodd-Frank grandfathered these securities, as community banks have much more limited sources of capital than larger banks.

3. Increased risk weighting for residential mortgage loans

   Our bank provides a significant number of mortgages to people in the markets we serve. As a our market area is primarily a rural area, a significant number of loans that we make in a given year, do not quite fit the "conforming" mold due to the fact that it is difficult to find comparable sales as current regulations require, which results in our Bank holding on average a higher amount of residential loans than other Banks across the country. These loans have typically performed very well for the Bank and we have had few charge-offs or delinquencies related to them. Saying this, I understand with the recent housing and foreclosure issues that our country has experienced that it is appropriate to review the risk weighting criteria associated with residential mortgages and home equity loans. It is unfair, however, to not grandfather previously issued loans from the new risk weight criteria. The new capital ratio rules will require Banks to collect and report a significant amount of new information, which result in Bank's like mine having to acquire or develop new software and systems. To then ask institutions to ensure that data, which may have not been gathered for loans that could be over a decade old and performing as originated is not appropriate.

4. Consideration of the Allowance for Loan and Lease Losses

   While reviewing the BASEL III regulations, and changes in capital ratio calculations and risk weighted assets, I realized a lot of the changes for loan related matters included delinquent loans, loan to value thresholds, junior loans and "High Volume Commercial Real Estate", are matters that our Bank considers when determining the appropriateness of the allowance for loan losses. If we experience an increase in delinquent loans or an increase in commercial real estate, we typically will increase the allowance through an increase in the provision for loan losses, which results in reduced income and therefore lower capital levels. Under current ratio calculations for total capital, the allowance for loan losses is added back to Tier 1 capital, up to 1.25% of risk weighted assets. If a Bank's allowance exceeds 1.25% of risk weighted assets, the excess is instead eliminated from risk weighted assets, instead of being added to capital. It does not appear under the new guidance that this will change, however, the risk weighting guidelines for high loan to value loans, delinquent loans; "high volume commercial real estate" and junior liens may not be increased in comparison to current regulations, which in theory will result in the need for additional capital. As a result, Banks will be accounting for these items twice in capital calculations.

In conclusion, the proposal as it is currently written will greatly impact in the following ways:

1. We will be required to expend a significant amount of time and money training our staff to understand and to apply the new rules. We will have to expend significant funds to upgrade our systems to ensure that can gather the relevant data needed to perform the new calculations. We will have to review every residential mortgage and home equity file to determine whether they are "Category 1" or "Category 2" loans and to determine if they are junior or senior loans. These costs will have a significant impact to our bottom line.

2. With no change in the way our Bank does business, we will be required to significantly increase the amount of capital we hold, as each of the items I noted above either increases risk based assets or decreases the amount of capital our Bank has, which is above and beyond the concept of increased capital levels utilizing the current calculation model.

I strongly urge you to consider the impact these regulations will have on community banks and thus the communities they serve and as a result to consider a possible exemption for most of the community banks from the bulk of these rules.

Thank you for your consideration.

Sincerely,

Randall E. Black

Randall E. Black
Chief Executive Officer and President